



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 15, 2001

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: *J. Tyler McCauley*
J. Tyler McCauley
Auditor-Controller

SUBJECT: **DPSS - Food Stamp Bulk Storage Agents**

Attached is our report of our on-site reviews and food stamp coupon reconciliations at the Department of Public Social Services' (DPSS) three Food Stamp Bulk Storage Agents (BSA): Dunbar Armored, Inc. (Dunbar), Loomis and Fargo Armored, Inc. (Loomis) and Sectran Security, Inc. (Sectran). DPSS contracts with the BSAs for the consolidated storage of food stamp coupons and distribution of the coupons to the various food stamp Issuance Agents located throughout the County.

Summary of Results

Our reconciliation of coupons on hand to Loomis' perpetual inventory records disclosed that Food Stamp coupon books valued at \$52,768 were not included in Loomis' inventory records. We determined that these coupon books were the ending inventory of an Issuance Agent no longer doing business with the County and that DPSS' Benefits Issuance Section instructed Loomis to keep these coupon books segregated from the County's inventory.

We also noted that Loomis' perpetual inventory balances were understated by \$51,000 as a result of some posting errors and the omission of a shipment to an Issuance Agent in their inventory records. These and other areas where controls can be improved are discussed in the attached report.

We were able to resolve the discrepancies discussed above and found that, overall, BSAs were adequately safeguarding and accounting for food stamps. For all three BSAs, we were able to reconcile the actual inventory on-hand to the accounting records maintained by the BSAs, DPSS and the Issuance Agents.

Acknowledgements

We would like to thank the Benefits Issuance Section for their cooperation during our review. The results of our physical inventory and our internal control and compliance findings, along with our recommendations for corrective action were discussed with representatives of DPSS. The Department's response, which is attached, reflects DPSS' overall concurrence with our findings and recommendations for corrective action and indicates that in many instances, corrective action measures have already been initiated.

If you have any questions, please call me or have your staff contact Mike McWatters at (213) 893-0791.

JTM:PTM:MWM

Attachments

- c: David E. Janssen, Chief Administrative Officer
Department of Public Social Services
Lynn Bayer, Director
John Murrell, Director, Bureau of Administrative Services
Henry Felder, Chief, Research, Evaluation and Quality Assurance Division
Michelle Callahan, Chief, Property Management and Benefits Issuance Division
Tony Vargas, Chief, Specialized Services Division
Gail Dershewitz, HSA III, Management Information and Evaluation Section
Peggy Dobson, ASM III, Benefits Issuance Section
Violet Varona-Lukens, Executive Office, Board of Supervisors
Audit Committee (6)
Eloise McCoy, Dunbar Armored, Inc.
Nola Tate, Loomis and Fargo, Inc.
Vaho Ohanian, Sectran Security, Inc.

Department of Public Social Services
Food Stamp Bulk Storage Review

Comments and Recommendations

Background

The Department of Public Social Services' (DPSS) contracts with three Food Stamp Bulk Storage Agents (BSA), Dunbar Armored, Inc. (Dunbar), Loomis and Fargo Armored, Inc. (Loomis) and Sectran Security, Inc. (Sectran) for the consolidated storage of food stamp coupons and distribution of the coupons to the various food stamp Issuance Agents located throughout the County. Section 63-601.272 of the California State Department of Social Services Manual – Food Services requires an on-site review and food stamp coupon reconciliation be performed annually at each BSA.

Scope

Our review covered the period October 1999 through September 2000. On October 12, 2000, we conducted a physical inventory at each of the three BSAs' facilities. We reconciled the physical counts to perpetual inventory records maintained by the BSAs. We also evaluated the accuracy of monthly inventory reports submitted by the BSAs by comparing them to records maintained and/or prepared by DPSS' Benefits Issuance Section (BIS), the BSAs and Issuance Agents.

Our reconciliation included a comparison of BSA shipments to and from Issuance Agents to the monthly FNS-250 (Food Coupon Accountability Report) prepared by the Issuance Agents. In several instances, the BIS either had to prepare or correct an FNS-250 for an Issuance Agent. In such cases, we relied on the FNS-250 prepared/corrected by BIS.

Results of Review

In conjunction with our annual on-site reviews of the DPSS' BSAs and our review of the records that underlie the BSAs perpetual inventory records, we noted a number of internal control and compliance issues. The following is a description of each of those issues, along with recommendations for corrective action.

FNS Reports

Our review of the BSAs' monthly FNS-250s (Food Coupon Accountability Report) and our reconciliation of the information recorded on these documents to the FCS-261s (Advice of Shipment), FNS-300s (Advice of Transfer), FNS-250s prepared by Issuance Agents and other pertinent documents disclosed a number of instances where documents were not completed accurately, or were not completed at all.

Incorrect FNS-250s and FCS-300s

Food Coupon Accountability Reports (FNS-250) submitted by thirteen different Issuance Agents contained various errors and omissions. In many instances it appeared that the Benefits Issuance Section identified the error or omission and corrected the Issuance Agents' FNS-250. A summary of the errors/omissions noted is as follows:

- The Transfer Summary section was not completed (9 instances).
- An incorrect project code or no project code was recorded in the Transfer Summary section (27 instances).
- The "In From" box located in the Transfer Summary section was not checked-off (6 instances).

In addition to errors noted on FNS-250s submitted by Issuance Agents, we also noted that the Date of Receipt had been altered by DPSS' Benefits Issuance Section (BIS) on 29 Advice of Transfer - Food Coupons (FCS-300) documents submitted by Sectran and Dunbar. The documents had originally been dated the month following the report month. BIS changed the Date of Receipt so that it would be during the report month. It is important that the Issuance Agents' FNS-250s and the BSA's FCS-300s are accurate to ensure that there is accountability on the part of both the Issuance Agents and BSAs.

Recommendation

1. **BIS management reemphasize to the Issuance Agents the importance of submitting complete and accurate FNS-250s and FCS 300s.**

Benefits Issuance Section Prepared/Corrected FNS-250s

Two FNS-250s submitted by two different Issuance Agents contained errors in beginning inventory balances for certain coupon denominations. These same two Issuance Agents, who currently do not have contracts with the County, also did not submit an FNS-250 for the last month that they had food stamps in their possession. In the instances where there were discrepancies in the beginning inventory balances, BIS completed a corrected FNS-250. BIS also prepared FNS-250s for the last month these Issuance Agents had an agreement with the County. In each of the instances where BIS corrected or prepared an FNS-250, we were told that the Issuance Agent refused to sign the BIS prepared/corrected FNS-250.

BIS should reemphasize to the Issuance Agents the importance of submitting complete and accurate FNS-250s. To the extent practical, DPSS should obtain the Issuance Agents sign-off on the BIS prepared/corrected FNS-250s.

Recommendation

2. **BIS management, to the extent practical, obtain the Issuance Agent's sign-off on the BIS prepared/corrected FNS-250s.**

Inventory Issues

Pursuant to Section 63-601.272 of the California State Department of Social Services Manual – Food Stamps, we are required to conduct an on-site review of DPSS' BSAs. The primary purpose of the on-site visits is to perform a physical inventory of Food Stamp coupon books in the BSAs' custody. We conducted an initial on-site visit on October 4, 2000. However, after learning that the BSAs had been notified in advance that we would be performing the on-site visits, we conducted a second unannounced on-site visit on October 12, 2000. Unless otherwise indicated, our findings concerning the accuracy of the BSAs' inventory records are based on the October 12th on-site visits.

Accuracy of Inventory Records

All three BSAs conduct periodic inventories of the food stamps in their possession. The resulting inventory reports were used to establish the amount of food stamps the BSAs should have had in inventory as of the date of our physical count. Our physical inventory disclosed discrepancies in the inventory records of two BSAs, as follows:

- Loomis' inventory balance per their inventory report was overstated by \$51,000, consisting of 1,000 - \$50 books and 500 - \$2 books. The error involving the \$50 books occurred when the Loomis employee preparing the inventory report did not correctly carry over the ending inventory balance for \$50 books from the prior business day. The error involving the overstatement of \$2 books occurred because Loomis' inventory report for October 11th did not reflect the transfer out of 500 - \$2 books.
- The errors noted affected the daily inventory reports for October 10th through October 12th and were only detected by Loomis when we were unable to balance to their inventory report. The fact that these errors extended through three successive days' reports without detection, suggests that the reports were not consistently undergoing management review and approval. This condition also suggests that the physical stock of coupons books was not being counted daily and compared to the balance per the inventory report.
- Our physical counts did not agree with the ending inventory balance reflected on Dunbar's inventory report as of the date of our count. Dunbar management explained that when they stage coupons for shipment the following business day, the coupons are taken out of inventory balances on the date they are staged for shipment. This practice results in value of the coupons physically on-hand being greater than the value reflected in Dunbar's perpetual inventory balances,

because, while the books to be shipped have been taken out of the balances on the inventory report, the books are physically still in Dunbar's inventory.

Recommendation

3. **BIS management reemphasize to BSAs the importance of maintaining accurate inventory records, reconciling inventory to those inventory records on a daily basis and ensuring that there is consistent management review and approval of the reconciliations.**

Food Stamp Coupons Not Included in Inventory Balances

All Food Stamp coupon books should be accounted for on BSA's inventory. At the time of our initial on-site visit, Loomis had custody of \$52,768 in Food Stamp coupon books of various denominations, which were not included in the County's inventory balances. These coupon books had been transferred to Loomis from an Issuance Agent and were being stored by Loomis for the County. However, Loomis management explained, and DPSS confirmed, that the Department had instructed them not to commingle these coupon books with the County's regular inventory.

While Loomis was attempting to comply with DPSS' instructions, they should have at a minimum, recorded the balances of the coupons books transferred from the Issuance Agent separately from the County's inventory balances to establish accountability for these coupon books. Loomis indicated that when they took custody of the Food Stamp coupon books, DPSS provided them with no guidance on how to account for this inventory.

Recommendation

4. **BIS management ensure that, in instances where food stamp coupons are transferred to a BSA from Issuance Agents for storage, the BSA be advised by BIS on the appropriate way to account for the inventory.**

Security Issues

Identification Not Requested

As previously indicated, we conducted two food stamp physical inventory counts of each BSA. On the first count, Loomis representatives asked Auditor-Controller staff to provide identification, prior to allowing us to enter their facility to conduct the physical inventory. However, on the second count, Loomis representatives did not ask for identification. While Loomis' personnel might have recognized and remembered our staff from our initial count, it is essential that the procedures relating to the verification of identity of all visitors be consistently followed.

Safeguarding Security Videos

Security videos are used at Dunbar's facility to help identify individuals entering and exiting the vault area where Food Stamp coupon books are stored. The videos could be invaluable in assisting in the identification of the responsible party should a misappropriation of food stamps occur. These security videos should be properly safeguarded.

The security videos of the vault are stored inside the vault with the food stamps inventory. Thus, if an individual were able to gain access to the vault to misappropriate food stamps, that individual would also be able to destroy, or remove the videos from the vault, making them useless as a security measure. We identified this same internal control weakness in our review last year.

Unattended Individuals in Vault Area

To ensure that physical security over the Food Stamp coupon inventory is maintained at all times, visitors should not be left unattended while in the vault. During our physical inventory, Loomis representatives began to leave Auditor-Controller staff unattended in the vault until Auditor-Controller staff reminded Loomis personnel that it was essential that they remain present during our inventory.

Recommendations

BIS management:

- 5. Reemphasize to Loomis the importance of consistently requiring proper identification from all individuals requesting access to its facility.**
- 6. Require that Dunbar maintain its security videos in a secure location where they will be less susceptible to theft, or destruction.**
- 7. Reemphasize to Loomis the importance of not leaving visitors in the vault area unattended.**

Written Procedures

The County's contract with the BSAs states that the "County shall furnish instructions to BSAs on the disposition of coupons stored, records to be kept, and reports to be made." The copy of DPSS' *Benefits Issuance Agents Operations Handbook* being utilized by the BSAs contains outdated values for series C through F coupon books. BIS management should ensure that its handbook is updated when appropriate and that the BSAs are provided with updates to DPSS' *Benefits Issuance Agents Operations Handbook*.

Recommendation

8. **BIS management ensure that *DPSS Benefits Issuance Agents Operations Handbook* is updated when appropriate and that the BSAs are provided with these updates.**

Insurance Coverage

General Liability Coverage

The contract between each BSA and the County requires that the BSA's general liability insurance policy be in an amount of at least \$2 million per occurrence. Loomis' policy did not meet this requirement. Loomis' policy general liability policy was in the amount of \$750,000 per occurrence, and Loomis was self-insured in the amount of \$250,000 per occurrence, for total coverage of \$1 million per occurrence. Loomis has no excess liability insurance. Therefore, their policy limits are less than those required under their contract with the County.

30-Day Notification

The Standard Insurance Requirements issued by the Chief Administrative Office (CAO) require the BSAs to carry policies giving Los Angeles County 30 days written notice of any modification, or termination to the policy(ies). Dunbar's Crime Coverage insurance policy only provides the County with ten days notice.

Workers' Compensation – WC Statutory Box

The Standard Insurance Requirements issued by the Chief Administrative Office (CAO) require the BSAs to carry Workers' Compensation insurance in an amount and form to meet all applicable requirements of the Labor Code of the State of California, including Employer's Liability with a \$1 million limit, covering all persons the contractor is legally required to cover.

We noted that the insurance certificate submitted by Sectran covering the period 02/12/99 through 02/12/00 and Loomis covering the period 10/01/99 through 01/24/00 did not have the "WC Statutory Limits" box checked-off. For these periods, these BSAs may not have had coverage sufficient to meet all of the requirements of the California Labor Code.

Additional Insured

The contract between the County and its BSAs requires that the County be named as an Additional Insured on the BSA's General Liability Insurance policy. While Sectran's insurance certificate covering the period 09/01/99 to 11/21/99 named the County as the Certificate Holder, the certificate lacked the statement "The Certificate Holder is included as additional insured with respect to general liability". Accordingly, Sectran may not be in compliance with the County's contractual insurance requirements.

Crime Coverage – Loss Payee

The contract between the BSAs and Los Angeles County requires that the BSA's crime coverage insurance policy name the County of Los Angeles as a loss payee. The County of Los Angeles was not named as a loss payee on Sectran's crime coverage insurance policy for the period 09/01/99 through 11/21/99. If a loss occurs and the County is not named as loss payee, the insurer will remit proceeds of the policy to BSA and the County must collect the amount of loss from the BSA. If the County is named as a loss payee, insurance proceeds are remitted directly to the County.

Recommendations

BIS management ensure that:

- 9. Loomis carries the require level of General Liability insurance coverage.**
- 10. Sectran's Crime Coverage insurance policies name the County as a loss payee.**
- 11. Sectran's General Liability insurance policies name the County as an Additional Insured.**
- 12. Dunbar's Crime Coverage insurance policies comply with County's requirement of 30-day notification of any changes or termination of insurance policies.**



County of Los Angeles
Department of Public Social Services

Lynn W. Bayer
Director

March 6, 2001

J. Tyler McCauley, Auditor-Controller
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

FOOD STAMPS BULK STORAGE AGENTS' REVIEW

Attached is my Department's response to the Food Stamps Bulk Storage Agents' Review. The review revealed that the Bulk Storage Agents (BSAs) were adequately safeguarding and accounting for Food Stamps. Although the BSAs were adequately safeguarding and accounting for Food Stamps, certain internal areas needed to be reviewed. Twelve recommendations were made for internal review.

Attached is my Department's response to the twelve recommendations. Eleven of the recommendations have already been implemented.

Very truly yours,

Lynn W. Bayer
LYNN W. BAYER, DIRECTOR

LWB:aj

Attachment

FOOD STAMPS BULK STORAGE AGENTS' REVIEW SUGGESTIONS

RECOMMENDATION #1

Benefits Issuance Section management reemphasize to the Issuance Agents the importance of submitting complete and accurate FNS-250s and FCS 300s.

RESPONSE

DPSS' Benefits Issuance Section (BIS) issued All Agent Letter 01-04, dated February 22, 2001, instructing the bulk storage and issuance agents to review reports for accuracy and consistency before submitting them. BIS staff will continue to monitor for compliance.

STATUS

Implemented February 22, 2001

RECOMMENDATION #2

Benefits Issuance Section management, to the extent practical, obtain the Issuance Agent's sign-off on the BIS prepared/corrected FNS 250s.

RESPONSE

BIS, in every instance, attempts to obtain the Issuance Agent's signature when it is necessary to prepare/correct the FNS 250.

STATUS

Pending

RECOMMENDATION #3

BIS management reemphasize to the Bulk Storage Agents (BSAs) the importance of maintaining accurate inventory records, reconciling inventory to those inventory records on a daily basis and ensuring that there is consistent management review and approval of the reconciliations.

RESPONSE

BIS issued a letter to Loomis Fargo & Co., Inc. on February 27, 2001, directing them to maintain accurate inventory records ensuring consistent management review and approval of inventory count reconciliation conducted on a daily basis.

STATUS

Implemented February 27, 2001

RECOMMENDATION #4

BIS management ensure that, in instances where food stamp coupons are transferred to a BSA from issuance Agent for storage, the BSA is advised by BIS of the appropriate way to account for the inventory.

RESPONSE

BIS issued a letter to Loomis Fargo & Co., Inc. on February 22, 2001. The letter instructed Loomis how to secure, record and keep the loose coupons inventory coming to them from an issuance outlet when that outlet's contract is terminated.

STATUS

Implemented February 22, 2001

RECOMMENDATION #5

BIS management reemphasize to Loomis the importance of consistently requiring proper identification from all individuals requesting access to its facility.

RESPONSE

BIS sent a letter to Loomis Fargo & Co., Inc. on February 27, 2001. The letter directed Loomis to follow the security procedures as written in the DPSS Benefits Issuance Agents Operations Handbook. The Handbook instructs the BSAs to review the identification (usually the California Driver's License) of the person who will perform an audit of their facility.

STATUS

implemented February 27, 2001

RECOMMENDATION #6

BIS management require that Dunbar maintain its security videos in a secure location where they will be less susceptible to theft, or destruction.

RESPONSE

BIS staff visited the Dunbar Armored, Inc. facility located at 4201 Ross Street, Vernon, California on February 27, 2001. No video tapes were found stored inside the vault with the Food Stamp inventory. According to Dunbar management, the video tapes were destroyed because they were outdated and their retention is not required under the contract.

STATUS

Implemented February 27, 2001

RECOMMENDATION #7

BIS management reemphasize to Loomis the importance of not allowing visitors in the vault area unattended.

RESPONSE

BIS issued a letter to Loomis Fargo & Co., Inc. on February 27, 2001. The letter reemphasized the importance of maintaining physical control over access to their Food Stamp coupon book inventory inside the vault.

STATUS

Implemented February 27, 2001

RECOMMENDATION #8

BIS management ensure that DPSS Benefits Issuance Agents Operations Handbook is updated and that the BSA's are provided with these updates.

RESPONSE

BIS' staff delivered the updated Handbooks to the BSAs on February 1, 2001.

STATUS

Implemented February 1, 2001

RECOMMENDATION #9

BIS management ensure prospectively that Loomis carries the required level of General Liability insurance coverage.

RESPONSE

BIS sent letters dated February 27, 2001, to all three BSAs requiring that they submit insurance certificates to comply with the above suggestion.

STATUS

Implemented February 27, 2001

RECOMMENDATION #10

BIS management ensure prospectively that Sectran's Crime Coverage insurance policies name the County as a loss payee.

RESPONSE

BIS sent letters dated February 27, 2001, to all three BSAs requiring that they submit insurance certificates to comply with the above suggestion.

STATUS

Implemented February 27, 2001

RECOMMENDATION #1 1

BIS management ensure prospectively that Sectran's General Liability insurance policies name the County as an additional insured.

RESPONSE

BIS sent letters dated February 27, 2001, to all three BSAs requiring that they submit insurance certificates to comply with the above suggestion.

STATUS

Implemented February 27, 2001

RECOMMENDATION #12

BIS management ensure prospectively that Dunbar's Crime Coverage insurance policies comply with County's requirement of 30-day notification of any changes or termination of insurance policies.

RESPONSE

BIS sent letters dated February 27, 2001, to all three BSAs requiring that they submit insurance certificates to comply with the above suggestion.

STATUS

Implemented February 27, 2001